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E.O. 12958: DECL: TEN YEARS
TAGS: [ECON](#) [EFIN](#) [ETRD](#) [PREL](#) [EC](#)
SUBJECT: DEPUTY SECRETARY'S MEETING WITH THE GOE ECONOMIC
TEAM AND SIGNATURE OF A LOAN GUARANTEE

Classified By: Ambassador Linda Jewell for reasons 1.4 (b&d).

¶1. (SBU) Summary. During a lunch with the Deputy Secretary, members of the Government of Ecuador economic team touched upon the need to improve education and health care in Ecuador and generate economic opportunities for the poor. The Ecuadorians cautiously welcomed the idea of a bilateral economic dialogue and said that the Ecuadorian side would be coordinated by the Foreign Ministry. Following a separate event to sign a loan guarantee supporting credit to small businesses, banking sector representatives briefed the Deputy Secretary about their concerns that the GOE will impose

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interest rate caps and eliminate commissions. End Summary.

¶2. (U) During his visit to Ecuador, the Deputy Secretary met with members of the GOE Economic team for lunch. Ecuadorian participants in the lunch were Mauricio Davalos, Minister for Economic Coordination; Raul Sagasti, Minister of Industry; Fernando Yepez, U/S for Economic Policy at the MFA; Jose Rosero, Vice Minister for Social Coordination and Paulo Rodriguez, Director General for Competitiveness. U.S. participants were the Deputy Secretary, Ambassador Jewell, WHA A/S Shannon, D Staff, AID Mission Director and EconCouns.

Social and Economic Issues -----

¶3. (SBU) The Deputy Secretary asked about status of education in Ecuador, and Rosero replied that Ecuador has good coverage at the primary level (95%), but enrollment drops off sharply at the secondary level (55%), and even more at the university level (12%). He said that the government needs to invest in education and improve its overall quality. Davalos noted that Ecuador has also underinvested in health, and this government plans to spend twice as much on health in 2007 (\$104 million) as prior governments did over a six-year period (\$55 million).

¶4. (SBU) The Deputy Secretary asked about life expectancy in Ecuador. Rosero said that it is 72 years, to the surprise of most of the Ecuadorian participants (note: Rosero's statement is corroborated by WHO statistics). When the Deputy Secretary noted that that is close to life expectancy in the United States, Rosero replied that the GOE believes that Ecuador also needs to improve the quality of life for Ecuadorians. He then discussed the GOE's plans to improve

economic opportunities for the poor through microcredit, focused government procurement, and promoting value chains.

15. (SBU) During a discussion on the limited presence of foreign banks in Ecuador, Davalos noted that the government hopes that a foreign bank will purchase the government-controlled Banco del Pacifico. He added that many people do not expect that of this government, but he said that the Correa government values the contribution of foreign companies and the private sector. (Note: A prior government took over Banco del Pacifico following the 1999 banking crisis and contracted foreign bankers to manage the bank and prepare it for privatization.)

Scholarships to Study in the U.S.

16. (SBU) Davalos said that he attended university in the U.S. on a scholarship during the 1970s. He said that he greatly appreciated the experience, and implied that the United States was missing an opportunity when it subsequently reduced the scholarships it provided foreign students. Others noted that many Ecuadorians still study in the U.S., either on scholarships or at their own expense, but that a number of Ecuadorians now study in Argentina (economics) or Europe (social issues).

Parallels between Ecuador and Iraq and Vietnam/Cambodia?

16. (C) Davalos (who was in the U.S. during the Vietnam War) noted the difference in how the U.S. public has reacted to the wars in Vietnam and Iraq. The conversation turned to the challenges of withdrawing from Iraq, at which time Davalos quipped that Ecuador faces the same problem with dollarization) we got ourselves in and don't know how to get ourselves out.

17. (C) Davalos then drew parallels to how Cambodia was used as a refuge by the Viet Cong during the Vietnam War and how Colombian guerrillas are trying to use Ecuador as a sanctuary. He continued that Ecuador is controlling the situation for now, but it needs to guard against a repeat of the Cambodia experience.

Economic Dialogue

18. (SBU) The Ambassador noted that during the Deputy Secretary's meeting with President Correa, Correa responded

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positively to a proposal to establish a bilateral economic dialogue (septel). A/S Shannon noted that President Bush, during his recent visit to the region, stressed the importance of jointly addressing economic, social and democratic development. He also said that we recognize that Ecuador will not negotiate a free trade agreement with the U.S. at this time, but we still want to deepen economic engagement.

19. (SBU) Davalos said that the GOE recognizes that the U.S. is its principle trading partner and wants to maximize that relationship, but stressed that an FTA is not possible at this time since prior governments had neglected infrastructure and education, which impedes Ecuador's competitiveness. He did say that it would be important to start a bilateral discussion on trade and other economic issue under the leadership of the Foreign Ministry. U/S Yopez noted President Bush's emphasis on social and democratic issues in the region, and said that the U.S. and Ecuador need to identify areas to deepen cooperation, including touching upon social issues.

Signing Ceremony for Loan Guarantee for Small Businesses

110. (U) In a separate event arranged by USAID and hosted by

Banco Pro-Credit, which specializes in loans to small and microbusinesses, the Deputy Secretary signed a Guarantee Agreement with three Ecuadorian financial institutions for \$13.25 million. The loans will be used to support activities in agricultural, industrial and eco-tourism sectors and will be made available to small and medium businesses. Sixty percent of the loans will be disbursed in rural areas. The USG will guarantee 50% of the outstanding principal in case of default.

¶11. (U) The Deputy Secretary also met with representatives of the four financial associations in Ecuador and was briefed by the representatives on recent developments that could affect the stability of the financial sector. The banking representatives are concerned the government will establish artificial pricing mechanisms and interest rates caps, and eliminate commissions that microfinance institutions charges to cover their high operating costs. The GOE is considering two draft laws to increase controls over the banking sector.

¶12. (C) Comment: The Deputy Secretary had broached the idea of an economic dialogue to President Correa shortly before the lunch. The GOE economic team responded cautiously to the proposal, probably since they did not have guidance from Correa on how to proceed. Given Correa's positive response and the economic team's interest, we believe that Ecuador will agree to a bilateral economic dialogue. We will discuss the matter in more detail with the Foreign Ministry and other interested agencies.

¶13. (U) This cable has been cleared by the Deputy Secretary's party.

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